

## Fitch Rates Lynchburg, Virginia's \$33.8MM GOs 'AA'; Outlook Stable

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Fitch Ratings-New York-10 July 2007: Fitch Ratings assigns an 'AA' rating to the City of Lynchburg, Virginia's approximately \$33.8 million general obligation (GO) public improvement bonds, series 2007. The bonds are scheduled to sell competitively on July 19, with bond proceeds funding various general government projects. Bond proceeds will also refund the city's \$16.5 million series 2006 GO public improvement bond anticipation note. Davenport & Company LLC is the city's financial advisor. Fitch also affirms the 'AA' rating on the city's approximately \$177.5 million of outstanding GO bonds. The Rating Outlook is Stable.

The 'AA' rating reflects the City of Lynchburg's strong financial management, moderate debt levels, and mature economy. The manufacturing sector remains an important job producer, and economic diversification efforts continue, particularly in the city's industrial parks. Future debt needs are manageable, and the debt burden should remain moderate given the rapid amortization of outstanding bonds and the availability of user fees to support a portion of the city's GO bonds.

Located in central Virginia, Lynchburg has effectively dealt with many of the challenges that face historically manufacturing-based economies while continually developing its role as a retail center for the surrounding area. Lynchburg also serves as a regional provider of higher education and health care services. The unemployment rate, 3.7% in May 2007, is historically above the Commonwealth's low average but below the national average. Downtown and riverfront redevelopment activity continues to show momentum with significant public and private investment yielding new residential, arts and entertainment, and civic facilities. Per capita personal income levels, while below average at 75% of the Commonwealth and 81% of the national figures, are somewhat reflective of the city's significant student population.

Financial management is strong, as evidenced by adherence to formalized policies regarding fund balance, debt affordability, quarterly reporting, and midyear budget reviews. Reserve levels consistently exceed the adopted policy targets. The city ended fiscal 2006 with a \$10.3 million general fund surplus, owing in large part to a change in personal property tax collection methods. The unreserved general fund balance strengthened to \$35.9 million, or 24.4% of expenditures, transfers out, and other uses. The fiscal 2007 budget includes use of the majority of the fiscal 2006 surplus to fund non-recurring capital expenditures. Despite the draw on fund balance, officials expect that strong tax and investment income revenue growth will yield reserve levels more consistent with average historical performance.

The \$156.9 million fiscal 2008 adopted general fund budget represents a 5.6% increase in spending over the fiscal 2007 budget and includes a \$4.7 million fund balance appropriation for one-time capital expenditures and an above-average increase in tax revenues. Taxes are budgeted at 71.6% of total general fund revenues and the budgeted levy represents a 5.9% increase over fiscal 2007. City enterprise funds are healthy, aided by steady rate increases. However, the city remains under a special consent order to separate its storm water and sanitary sewer systems, and future sewer utility rate increases are envisioned, keeping them above average for the area.

Overall debt levels are moderate at \$2,260 per capita and 2.9% of taxable assessed value; outstanding debt amortizes rapidly. Capital needs outside of the sewer system upgrades are manageable due to the low rate of

population growth and the presence of an established infrastructure. About one-third of the \$300.8 million fiscal 2008-2012 capital improvement plan (CIP) relates to the sewer system, which includes compliance with the special consent order regarding combined sewer overflows. The remainder of the plan addresses primarily school (21%) and general government including transportation (32%) needs. Approximately 33% of the current CIP is funded through GO bonds with another 26% financed by revenue bonds.

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